PrimeEquity Research

Meridian Securities INCORPORATED
Member: Philippine Stock Exchange

DAILY MARKET PRIMER

11 October 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,001.14 (-0.83%)	99,147,362.65	(9,377,894.24)	25.30 (-2.65%) = 1,370.40	54.166

MARKET OUTLOOK

- The main index weakened anew on Wednesday, nearing its record low for the year as the sluggish outlook on the country prompted more foreign investors to pull out their funds from the local market.
- The PSEi ended negative as worries on global growth keep market sentiment pessimistic. The IMF's sluggish outlook for the Philippine economy is one of the reason why investors, especially the foreigners, are still selling their shares.
- The International Monetary Fund (IMF) recently lowered its growth forecast for the Philippines to 6.5% from its previous projection of 6.7%, citing downside risks such as "rising inflation, continued rapid credit growth, higher US interest rates and US dollar, volatile capital flows, and trade tensions."
- Aside from the IMF, the World Bank also cut its growth forecast on the country to 6.5%, from the previous 6.7% forecast.
- Amid the lack fresh leads to buoy the local market sentiment, market participants are either staying on the sidelines or they trade select second-liner stocks that have been rallying.
- With the index teetering and closing right on the 7,000 psychological level and also just a few points above its previous 2018 intraday low of 6,923, investors should watch out if foreign selling once again proves to be the index's bane today.
- Q3 GDP (gross domestic product) growth and corporate profit reports are expected to improve market sentiment if they turn out better when they are released next month.

ECONOMIC HIGHLIGHTS

Trade Balance

- The country's merchandise trade deficit lingered above the $3-billion mark for the fifth straight month this year in August as a pickup in export growth that month failed to offset a slower increase in imports, according to data the Philippine Statistics Authority (PSA) reported on Wednesday.
- August saw overseas sales of Philippine goods increase by 3.089% year-on-year to $6.163-bil, outstripped by an 11.034% hike in value of inbound foreign goods to $9.677-bil, yielding a $3.513-bil deficit in trade in goods that was 28.393% bigger than the year-ago $2.737-bil. August's trade gap was also 0.9% less than July's $3.546-bil.
- Year-to-date, exports dipped 2.049% to $44.908-bil while imports grew 15.043% to $70.911-bil, pushing the merchandise trade gap up 64.668% to $26.003-bil. The government has targeted exports to grow nine percent and imports 10% for 2018.
- Merchandise export growth in August was the best performance for this year, so far, and was the third straight month of positive performance, while that of imports was the slowest in five months.
- In a statement, the National Economic and Development Authority (NEDA) noted that exports in August were buoyed particularly by electronic products, mineral products, as well as fruits and vegetables. It said steps to help exports grow further include removing unnecessary regulatory impediments, raising productivity and competitiveness of businesses, upgrading export quality and standards, improving access to trade finance, and enhancing innovation.
- Electronic products, which accounted for 54.282% of exports in August, grew 6.978% year-on-year to $3.346-bil. Year-to-date, this segment was up 5.712% to $24.987-bil.

ECONOMIC INDICATORS					
GDP Growth Rate	6.0% (Q2 2018)	Unemployment Rate	5.4%% (July 2018)	GIR	US$75.161-B (September 2018)
Fiscal Surplus / (Deficit)	(P2.6-B) (August 2018)	Exports Growth Rate	3.1% (August 2018)	BOP	US$1.272-B (August 2018)
Inflation	6.7% (2012 BY) (September 2018)	Imports Growth Rate	11.0% (August 2018)	O/N RP	5.00% (as of September 27, 2018)
91-day T-Bill Rate	3.549 (as of September 10, 2018)	Cash Remittances	US$2.401-B (July 2018)	O/N RRP	4.50% (as of September 27, 2018)

ECONOMIC CALENDAR

Monday, October 22
• Budget Balance (Sept.)

ECONOMIC HIGHLIGHTS (continued)

Trade Balance (continued)

- NEDA also noted that import growth softened on weaker increases in purchases of consumer items, capital goods, as well as raw materials and intermediate goods. It added that the country's total import bill can be expected to grow further in the coming months on increased purchases of capital goods for the government's infrastructure development push as well as rising oil prices.
- Electronic products, used as intermediate production inputs, made up 25.404% of August merchandise imports at $2.458-bil, up 9.95% from a year ago. Year-to-date, these products grew 19.219% to $18.352-bil.
- Capital goods made up 34.466% of imports in August at $3.335-bil, up 12.944% from a year ago. Year-to-date, this segment was up 16.076% to $23.443-bil.
- The peso, which on Wednesday was 8.5% weaker against the dollar year-to-date, has also been a factor, supposedly helping to make Philippine goods cheaper when sold abroad while at the same time making it more expensive to buy foreign products.
- The eight months to August saw the United States lead overseas markets of Philippine goods with a 15.297% share with $6.869-bil, up by 6.781%. Hong Kong followed with a 14.612% share of $6.562-bil, up 15.196%; Japan came next with a 14.146% share of $6,353-bil, though down by 16.509%; while China accounted for 12.921% with $5,803-bil, up 12.031%.
- The same period saw China top sources of products that went into the Philippines, accounting for 19.421% with $13.771 billion, up 24.774%. South Korea came next with a 10.138% share of $7,189 billion, up 38.204; Japan followed with a 9.932% share of $7.043 billion, down 4.181%; while the United States accounted for 7.296% at $5.174 billion, up 5.49%.
- The growing trade deficit has fueled the increase in the country's current account gap, which at $3.1-bil last semester had already hit the full-year projection of the central bank.
- The prognosis is for the current account to remain in the red, exerting further pressure on the local unit despite central bank's already very hawkish stance, referring to a cumulative 150-basis-point hike in policy interest rates since May as the central bank sought to temper inflation pressures and support the peso.
- The country's trade gap can be expected to grow further in this kind of external environment of weak demand for exports.
- By end 2018, the trade deficit is still expected to further widen and persist.
- Nevertheless, the said trade deficit is not major concern since there are ample international reserves and the macroeconomic fundamentals are fairly stable.

FDI

- Net inflowsof foreign direct investments (FDI) more than doubled in July, marked by strong inflows for both intercompany loans and equity capital, the central bank reported on Wednesday.
- FDI net inflows reached $914-mil for the month, improving from $831-mil in June and jumping from $344-mil received in July 2017. This also marks the biggest net inflows since May's $1.645-bil.
- This reflected the continued positive investor sentiment on the Philippine economy on the back of strong macroeconomic fundamentals and growth prospects.
- FDIs infuse additional capital for the Philippine economy, which in turn creates more job opportunities and spurs domestic activity by supporting business expansions.
- The July inflows also brought year-to-date FDI net inflows to $6.669-bil, 52.1% more than the $4.385-bil investments that entered the country in 2017's first seven months. This also brings FDI inflows closer to the $9.2-bil forecast given by the BSP for the entire year, coming from the record $10.049-bil recorded last year.
- Both equity and debt placements surged in July, data showed.
- Net equity investments reached $261-mil for the month, nearly double the $137-mil a year ago.

ECONOMIC HIGHLIGHTS (continued)

FDI (continued)

- Broken down, gross placements surged by 60.6% to $278-mil, which was partly offset by $17-mil worth of outbound capital. This compares to $173-mil worth of inbound equity capital in July 2017, offset by withdrawals worth $36-mil.
- Reinvested earnings totaled $69-mil, slipping 2.3% from $71-mil in July last year.
- Lending by foreign firms to their subsidiaries or affiliates in the Philippines quadrupled to $584-mil in July from $136-mil a year ago.
- The central bank said foreign investments went mainly to manufacturing; financial and insurance; real estate; wholesale and retail trade; and administrative and support service activities. The biggest sources of capital in July were Singapore, Hong Kong, Japan, the United States and China.
- One observer said that the surge in FDIs shows that the Philippines remains a “legitimate investment destination” in Southeast Asia.
- Despite the steady climb in inflows, the Philippines continues to lag behind its neighbors in terms of attracting foreign capital. HSBC Global Research previously said this is because of Constitutional limits on foreign ownership plus market uncertainty over a new system for tax incentives which hold back investors from making big bets here.
- The second tax reform package pending in Senate seeks to cut the corporate income tax rate gradually to 20% from 30% via two percentage-point reduction every other year starting 2021. The bill will also limit incentives to a single menu for all types of industries. Perks will be capped at five years and will replace all other forms of incentives granted by investment promotion agencies.
- Business groups and ecozone locators have cautioned that changing the set of these investment “sweeteners” could dampen investor appetite towards the Philippines and derail expansion plans of foreign firms.
- On the other hand, relaxation of the Foreign Investment Negative List that limits participation of offshore investors in select sectors awaits Malacañang’s approval more than a year after it had been expected.

CORPORATE NEWS

MPI

- The government expects phase 1 of the C5 South Link Expressway to open by March, three months ahead of the June 2019 schedule.
- Public Works and Highways Secretary Mark A. Villar said on Wednesday the construction of the project is on track, while acquisition of right of way is still ongoing.
- For the first phase, the government’s private concessionaire Cavitex Infrastructure Corp. (CIC) of the Metro Pacific Tollways Corp. (MPTC) said 74.54% of right of way has already been acquired. Seven structures owned by the Manila International Airport Authority (MIAA) and five structures of the Philippine National Police are still being processed.
- The P10-billion C5 South Link is a 7.7-kilometer toll road linking Circumferential Road 5 (C5) to the Manila-Cavite Expressway (CAVITEx), aimed at halving travel time to Taguig from Parañaque, Las Piñas and Cavite to around 30 minutes.
- The first phase covers the first 2.2 kilometers from the C5 road to Merville, the second phase from Merville to Sucat, and the last phase from Sucat to R1 Expressway.
- Mr. Villar said the whole alignment is targeted to be completed by 2020.

PTT

- Philippine Telegraph and Telephone Corp. (PT&T) on Wednesday signified its interest in joining the government’s search for a third telecommunications player by purchasing the bid documents.
- he bid documents were “consistent with what the DICT (Department of Information and Communications Technology) and NTC (National Telecommunications Commission) has shared in the selection process.”
- On Tuesday, another third telco aspirant, Now Corp., said it sued the NTC over “onerous” financial requirements in the terms of reference for the new major telecommunications player.
- At the same time, PT&T said it posted a P25-mil net income for the full year ending June, growing 193% from in the same period last year.
- The aspiring third telco player said its financial performance was “fueled by higher client base and lower operating expenses,” after recording a 62% rise in revenues to P201-mil from P124-mil during the same period in 2017.

CORPORATE NEWS (continued)

PTT

- PT&T said its client base grew 72.64% year-on year, noting the impact of the company's change in leadership.
- Menlo Capital Corp. acquired 70% of PT&T from Republic Telecommunications Holdings, Inc. in August 2017. A new set of management has since come in.
- When PT&T held its annual stockholders' meeting last month, the first since its voluntary suspension of trading in 2004, the company intends to strengthen its broadband network nationwide.
- The company is raising P7 billion to fund a plan to double its fiber footprint to about 20,000 kilometers within two years. Its newly signed memorandum of understanding with state-owned National Transmission Corp. (TransCo) will help PT&T with the plan as it will ensure the use of the government's fiber optic backbone facility.

CLC

- The Philippine Competition Commission (PCC) on Wednesday started a review of Chelsea Logistics Holdings Corp.'s (CLC) acquisition of Trans-Asia Shipping Lines, Inc.
- The Phase 1 review comes after the anti-trust body received the companies' notification of the deal last Sept. 21.
- To recall, the transaction was earlier voided due to CLC and Trans-Asia Shipping's failure to notify the PCC, even as the size of the transaction fell under the compulsory notification threshold of P1-bil.
- The voided deal led to the PCC approving CLC's purchase of shares in KGLI-NM Holdings, Inc., which owns 2Go Group, Inc. The PCC had said the Trans-Asia transaction initially raised competition concerns, as both 2Go and Trans-Asia were owned by Udenna Corp.
- A hearing was held at the PCC on Sept. 17, as the parties sought to have both decisions reconsidered.
- The PCC said Udenna Chairman and CEO Dennis A. Uy and company representatives committed to complying with the notification requirements, as well as make "voluntary commitments" to address the competition concerns.
- These include the commitment to be bound by a price monitoring scheme and provide necessary information to implement the same, the PCC said.
- Because of this, the PCC set the applicable administrative fine at 1% of the transaction value amounting to P11.4-mil. This lower than the P22.8-mil penalty set by the PCC.
- Under PCC rules, the Phase 1 review is conducted within 30 days from notification and payment of filing fees. The review will determine whether or not the deal will raise competition concerns. If competition concerns arise, the PCC will proceed to a Phase 2 review.
- Based on its previous review of the Chelsea/KGLI-NM transaction, PCC found that Chelsea's control of both 2Go and Trans-Asia would lead to a substantial lessening of competition affecting Roll-On/Roll-Off passenger shipping services in six routes, namely Cebu-Cagayan De Oro; Cagayan De Oro-Cebu; Cebu-Ozamis; Ozamis-Cebu; Cebu-Iligan and; Iligan-Cebu legs.
- It also found substantial lessening of competition in the cargo shipping services in the same areas plus the Cebu-Zamboanga leg.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,189.85	US$2.748